On Affluence and Economic Conflict

By David Klingaman

I

Exchange is a peculiar form of agreement in that the interests of the parties involved are partly in conflict.[1] Since ours is an exchange economy, the subject arises as to whether the scale of economic conflict should theoretically become less intense as the supply of goods produced by the economy's resources increases. The question considered here is whether high and growing per capita consumption would tend to lessen economic conflict among people for the economy's output of goods and services.

In theory at least, conflict can be measured by the intensity with which the individual applies himself to the bargaining aspect of the exchange agreement and by the time input involved in bargaining. Exchange agreements may be defined as contracts negotiated in order to exchange labor services, non-monetary assets, or monetary assets among persons. It is the existence of mutual gains from trade which induces individuals to make contracts with one another, and each individual endeavors to drive a shrewd bargain in order that he may increase his total utility both absolutely and relatively to that of his fellows. Thus aggregate economic conflict among persons in society would seem to be a function of the number of agreements struck and the amount of bargaining which entered each of those agreements. In order to consider whether growing per capita consumption tends to reduce conflict, it is necessary to analyze the effect of affluence on each of these indicators of conflict.

As a society becomes more affluent, each individual's consumption of goods rises and his portfolio of assets increases. Does this process of rising consumption and accumulation tend to reduce economic conflict among persons? In order to answer this question, it may be useful to reason backwards. One can theoretically conceive of a situation in which a given set of owned goods is so abundant that no individual desires more of any good; the marginal utility of each good is zero or less. In such a state of bliss the number of exchange agreements would be zero, and there would be no economic conflict.

Now suppose that each individual's portfolio of assets is gradually and equiproportionately reduced. At some point in this decumulation process,

[1] The theory of private goods exchange is rigorously developed in Peter Newman, *The Theory of Exchange* (Englewood Cliffs, N. J.: Prentice-Hall, 1965).

each individual will incur a utility loss as one more unit of a good is deducted from his portfolio. The precise point where this occurs will vary over goods for each person and over persons for each good. As the decumulation process begins to subtract units which have a positive marginal utility, the owner will be motivated to replace that good by engaging in trade. Eventually some point is reached where each individual wants more of each good in his portfolio. At this point the number of exchanges should cease increasing since now all individuals are motivated to trade for all goods in their portfolio. The permutation of exchange agreements is potentially maximized when each individual is motivated to trade for each good. The number of exchange agreements is not reduced as affluence proceeds so long as each individual wants more of each good. But should affluence proceed to the point where some goods are possessed to satiety, the number of exchange agreements should decline and economic conflict should diminish.

II

THE AFFLUENT SOCIETY, however, is not one of an unchanging set of goods. Once one drops the assumption of a given set of goods in order to allow for the introduction of new goods, the number of exchange agreements is positively affected. When one good is dropped from the trading permutation due to general satiety, a new good may take its place. Thus if economic conflict is a partial function of the number of exchange contracts, the scale of economic conflict is not extenuated by the introduction of new goods—quite the contrary.

Long before the supply of goods increases to the point where the number of exchange agreements begins to decline, growing affluence may affect economic conflict through its impact on bargaining intensity or bargaining time. It seems reasonable that the amount of time which an individual is willing to invest in bargaining on a specific contract is a function of the expected utility to him in arriving at such a contract. If the marginal utility of an individual's portfolio of assets diminishes, growing affluence may weaken the motivation of individuals to acquire assets and increase consumption. Since time is one of the objective costs involved in arriving at an exchange contract, a richer society may prefer to allocate less time to establishing relatively more advantageous exchanges.

Thus if economic conflict is a partial function of bargaining intensity or of the time spent in bargaining, it may be lessened by greater affluence. The emergence of new goods in the economy may tend to offset this factor

however. New goods will not only theoretically increase the exchange permutation but may also induce individuals to expend more bargaining time and effort in obtaining them. This would be true if the acquisition of a unit of a new good involves more utility than an additional unit of an old good. The propensity of individuals to bargain would presumably be enhanced by the availability of new goods.

Changes in taste may also affect the propensity to bargain for some goods although probably not for the whole set of given goods. The change in tastes is a factor making for greater economic conflict primarily with respect to the introduction of new goods, including in this last category qualitative improvements in old goods. The propensity to bargain in the economy is also affected by external shifts in the probability of individuals or groups in society of achieving more advantageous exchange contracts. The increased willingness of the Black Community, for example, to devote more time and energy to negotiating relatively more favorable exchange contracts (public as well as private) may be interpreted as an increase in the probability of their achieving such relatively more favorable exchange agreements.

The concept suggested here appears to derive some empirical support from the process of expansion in the public goods sector. The extension of public goods into new areas of provision seems to be accompanied by an increased willingness to invest time in bargaining.[2] Relatively less bargaining appears to be involved in an equivalent expansion of old public goods programs. There may, of course, be other explanations for this apparent phenomenon. From the individual-voter-taxpayer's view, however, the introduction of a new public good may be worth investing relatively more time in bargaining because he expects that the utility which he will receive from it will exceed that which he would obtain from an equivalent (monetary) extension of an old public good program.

In other words, the marginal utility of the new public good is relatively higher so that the individual is willing to invest more time in contracting to acquire it. If this is true, the extension of the public good sector into new fields will be accompanied by increased economic conflict. On the other hand, and analagously to the private goods sector sans new goods, the gradual extension of old programs should be attended by diminished conflict.

[2] In this case the "political exchanges" emerge from the political decision structure. *Cf.* James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: Univ. of Michigan Press, 1962); James M. Buchanan, *Public Finance in Democratic Process* (Chapel Hill: The Univ. of North Carolina Press, 1967); James M. Buchanan, *The Demand and Supply of Public Goods* (Chicago: Rand McNally & Co., 1968).

III

IN CONCLUSION, this note has suggested a theoretical framework for thinking about the aspect of economic conflict in society. It was mentioned that there may be a negative correlation between the quantity of goods which people own and the time and effort which they are willing to expend in making contracts for more of those goods. If so, the consequent reduction in bargaining intensity and bargaining time may, as affluence advances, lead to less economic conflict in the economy. The introduction of new products and shifts in consumer tastes and expectations may be factors making for constant and even greater economic conflict. The other factor producing economic conflict—the number of exchange contracts—is unlikely to diminish as affluence proceeds, at least until same goods are held to satiety.

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Dissent in a Free Society

OUR SYSTEM MUST—and it does provide for dissent and opposition, but we should begin with the premise that a solution must remain within our basic structure of constitutional, free government.

For dissent to be responsible, it must also be *relative;* that is, it should be kept in perspective, particularly its method of demonstration. I am sure we would all agree that self-immolation is a rather excessive protest against a neighborhood zoning change. At the other extreme, however, is the *shallowness* of protest in the muttered "it's terrible" when people are murdered in an effort to exercise their constitutional rights at the ballot box or upon the public highways. Both the extent and form of the protest must be related to the *target* of the protest. [From an address.]

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